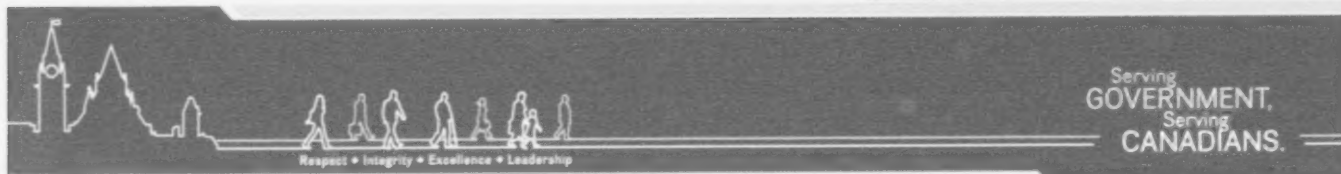




Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada



Quarterly Financial Report

For the quarter ended September 30, 2012

www.pwgsc-tpsgc.gc.ca

1. Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates*, *Supplementary Estimates A* as well as *Canada's Economic Action Plan 2012 (Budget 2012)*. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

Public Works and Government Services Canada (PWGSC) provides common, central and shared services to other government departments, thereby enabling them to deliver programs and services to Canadians. As the federal government's primary common service provider, PWGSC acts as principal banker, accountant, central purchasing agent, translation authority and real property manager to all government departments, boards and agencies.

Further details on PWGSC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares the Department's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates A*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the *Main Estimates* must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the *Main Estimates* on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 *Main Estimates*.

In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent *Main Estimates* tabled in Parliament.

The Department uses the full accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on an expenditure basis of accounting.

1.3 PWGSC's Financial Structure

As a common service provider, PWGSC uses a variety of funding mechanisms to achieve its mandate. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues, Capital Expenditures and Contributions, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefits Plan and

Payments in Lieu of Taxes. The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

PWGSC's complex financial structure may result in significant timing differences on a quarterly basis which are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and Vote-Netted Revenue programs. These organizations and programs are mainly designed to provide services to other government departments, and are expected to recover the full cost of their operations through their revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered, and thus revenues may be collected in a subsequent quarter.
- In addition, PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.
- Payments in Lieu of Taxes issued by PWGSC on behalf of other participating federal departments are recovered from those departments, and are recorded as statutory grants in the Public Accounts of Canada. The timing difference between the time a Payment in Lieu of Taxes is made and the time it is recovered from another department is funded through a statutory vote.
- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs when forfeiture and disposition have occurred.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

2.1 Significant changes to authorities (Net decrease of \$44.7 million)

As reflected in the Statement of Authorities (Table 1, page 9), the Department's total authorities available for use in fiscal year 2012-13, as of September 30, 2012, are \$2,670 million, compared to \$2,715 million at September 30, 2011. The overall decrease of \$44.7 million (or 1.6%) is explained by the major variances below:

YEAR-OVER-YEAR CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE (as at September 30, 2012)

(in millions of dollars)	VARIANCES IN AUTHORITIES AVAILABLE FOR USE				
	Operating	Capital	Contribution	Budgetary Statutory Authorities	TOTAL VARIANCES
Long Term Vision and Plan for the Parliamentary Precinct	(8.3)	176.0			167.7
Transfer to Shared Services Canada	(109.4)	(4.4)		(8.9)	(122.7)
Federal Contaminated Sites	46.0				46.0
Strategic Review	(41.9)				(41.9)
Pay Modernization	(0.2)	(16.7)		(0.3)	(17.2)
Pay Consolidation Project - Transfers from other departments	3.6				3.6
Carry Forward of Unused Funds	9.2	(47.1)			(37.9)
Paylist	(24.4)				(24.4)
Others	(19.0)	(2.4)	0.3	3.2	(17.9)
CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE	(144.4)	105.4	0.3	(6.0)	(44.7)

YEAR-OVER-YEAR CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE (as at September 30, 2012) – Continued *(Net decrease of \$44.7 million)*

LONG TERM VISION AND PLAN FOR PARLIAMENTARY PRECINCT (LTVP)

Approved budget of \$167.7 million: Continued implementation of the LTVP to ensure preservation of the Parliament Buildings as heritage assets and national symbols. The funding is related to the five year program of work under LTVP, which began in 2010-11. The projects for LTVP are on time and on budget.

TRANSFER TO SHARED SERVICES CANADA (SSC)

Decrease of \$122.7 million: Effective August 4, 2011, PWGSC transferred its information technology service activities to SSC for a total amount of \$122.7 million.

FEDERAL CONTAMINATED SITES

Increase of \$46.0 million: The increase in funding will secure remediation and assessment activities at federal contaminated sites under the custody of PWGSC in order to reduce human health and environmental risks and associated financial liabilities. Most of the funding is for the Esquimalt Graving Dock site.

STRATEGIC REVIEW

Decrease of \$41.9 million: PWGSC's contribution to the government's Strategic Review exercise has resulted in a decrease in funding of \$41.9 million in 2012-13, mainly through increased efficiency and effectiveness.

PAY MODERNIZATION PROJECT

Decrease of \$17.2 million: The goal of the Pay Modernization Project which began in 2009-10 and ends in 2015-16, is to replace the Government of Canada's 40-year-old pay system for the benefit of all departments. The 2012-13 reduction is due to the fact that the project is completing the planning phase and has not yet sought implementation phase funding as of the end of the quarter.

PAY CONSOLIDATION PROJECT – TRANSFERS FROM OTHER DEPARTMENTS

Increase of \$3.6 million: The Consolidation of Pay Services Project is gradually transferring pay administration services from government departments to a new PWGSC Pay Centre of Expertise located in Miramichi, New Brunswick. The transfer is taking place over a five-year period. The Pay Centre has started to provide services to client departments.

CARRY FORWARD OF UNUSED FUNDS FROM PREVIOUS FISCAL YEAR

Decrease of \$37.9 million: These unused funds are largely capital in nature. The carry forward of capital funds varies from year to year and results from the non-completion of specific capital projects which is often due to external factors beyond the control of management (e.g. weather and market conditions). The capital carry forward provision thus allows funding to be spent on approved but unfinished projects in the following year.

PAYLIST¹

Decrease of \$24.4 million: The decrease is due to one-time severance payments paid out to employees last fiscal year, as a result of ratified changes to collective agreements.

OTHERS

Decrease of \$17.9 million: Other authorities consist mainly of transfers to other government departments.

1. Paylist describes funding from Treasury Board to meet employee benefit entitlements, including severance pay.

2.2 Significant changes to Net Expenditures (Net decrease of \$78.6 million)

As presented in the [Departmental Budgetary Expenditures by Standard Object](#) (Table 2, page 10), the Total Net Budgetary Expenditures have decreased by \$78.6 million when compared to the same quarter of the previous year. The Department's trend in planned and actual expenditures is consistent with the same quarter of the previous year exclusive of the impact of information technology services transferred to Shared Services Canada.

When comparing annual planned expenditures for the second quarter, the expended portion represents 17% of annual planned expenditures, compared to 21% for the same quarter of last year. Furthermore, year-to-date expenditures represent 48% of annual planned expenditures compared to 50% last year.

The \$78.6 million decrease in Total Net Budgetary Expenditures is largely explained as follows:

(in millions of dollars)	VARIANCES IN NET BUDGETARY EXPENDITURES			
	2012-13 Year to date used at quarter end	2011-12 Year to date used at quarter end	Net Variance	Explanation of variance
Personnel	544.4	665.0	(120.6)	<ul style="list-style-type: none"> Transfer to Shared Services Canada Winding down Consulting and Audit Services Canada One-time payments for severance pay in 2011-12
Transportation and Communications	37.1	95.7	(58.6)	<ul style="list-style-type: none"> Transfer to Shared Services Canada
Professional and Special Services	465.1	529.6	(64.5)	<ul style="list-style-type: none"> Transfer to Shared Services Canada
Repairs and Maintenance	350.1	391.5	(41.4)	<ul style="list-style-type: none"> Transfer to Shared Services Canada
Acquisition of Land, Buildings and Works	132.6	94.0	38.6	<ul style="list-style-type: none"> Mostly recoverable from other government departments
Other Subsidies and Payments	248.7	225.9	22.8	<ul style="list-style-type: none"> Transfer to Shared Services Canada
Total Revenues Netted Against Expenditures	(1,185.6)	(1,324.6)	139.0	<ul style="list-style-type: none"> Transfer to Shared Services Canada
Other Expenditures	692.9	686.8	6.1	
Total Net Budgetary Expenditures	1,285.3	1,363.9	(78.6)	

The variances in the preceding table are mainly attributable to:

- The transfer of information technology services to Shared Services Canada announced in August 2011, which remained part of PWGSC's accounts in the second quarter of 2011-12. The transfer caused a decrease in revenues and a corresponding decrease in expenditures for personnel, transportation and communications, professional services, repairs and maintenance (includes information technology), and an increase in other subsidies and payments;
- The winding down of the Government Consulting Services and Audit Services functions as a result of Strategic Review, announced on June 20, 2011, and which took place in 2011-12. The winding down resulted in a decrease in expenditures for personnel and other expenditures;
- Severance payments paid out to employees in the second quarter of 2011-12, due to ratified changes to collective agreements. Eligible employees could opt for a one-time payout of their accumulated severance pay; and
- Acquisition of land, buildings and works worth \$38.6 million, of which \$23 million will ultimately be recovered from other government departments.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities in service delivery. Based on PWGSC's most recent risk assessment exercise, the following key risks were identified as having a potential financial impact:

There is a risk that the implementation of PWGSC's fiscal restraint and savings measures may affect the Department's ability to sustain the quality of its services to client departments. Building on progress made to date, PWGSC will continue to execute a risk-based implementation plan and will ensure that its integrated departmental financial and human resource strategies are well aligned with fiscal restraint measures. PWGSC's focus is to support the government's fiscal priorities without impeding the Department's ability to deliver on the quality of its services.

In addition to the challenge of managing the effects of fiscal restraint and savings measures on its own operations and services, PWGSC must manage the financial uncertainty that results from its role as a common service provider, and its significant dependency on revenue provided by client departments, as nearly 60 per cent of PWGSC's expenditures are derived through cost recovery.

To mitigate this risk, other departments' efforts to implement fiscal restraint and savings measures will be closely monitored in order to determine the impacts on PWGSC. By strengthening its internal governance of saving commitments, through the implementation of a client service strategy (CSS), which establishes a consistent set of service values, practices and client service management tools, and through improved ongoing dialogue with clients, PWGSC is able to assess and respond to changes in demand for services from client departments; thus far, the impacts on revenues have been manageable. The CSS has positioned PWGSC as an innovative and integrated common service delivery organization. The expected outcomes of a strong client focus are more clearly defined services and their method of delivery, more predictable service levels, better communication, and ultimately higher levels of client satisfaction.

Lastly, there is a risk that PWGSC's restrictive funding model may compromise the department's ability to allocate resources to address key priorities and various funding pressures. Mitigation measures have been taken, notably through the implementation of a more robust Financial Management Framework, the practice of sound integrated investment planning, and by implementing a more rigorous approach to the management of revenues, expenditures, forecasting and financial commitment monitoring. PWGSC continues to adhere to its budget management excellence practices, which have demonstrated positive results over the last three years.

4. Significant Changes to Operations, Personnel and Programs

Subsequent to the end of the second quarter and effective November 12, the Prime Minister appointed a new deputy minister for PWGSC.

While PWGSC has not seen any significant changes to its operations, personnel and programs in the second quarter of 2012-13, the Department is continually transforming in order to deliver on its budget reduction initiatives. Further information on these initiatives may be found in Section 5 below.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize the back office functions.

PWGSC is committed to Budget 2012 cumulative and ongoing savings of \$177.6 million by 2018-19. In the first year of implementation, PWGSC will achieve savings of \$1.5 million. Savings will increase to \$28.1 million in 2013-14 and \$85.3 million in 2014-15. There were no financial impacts in the second quarter on the department's authorities due to Budget 2012 decisions. Subsequent financial reports will reflect the 2012-13 PWGSC budget reduction of \$1.5 million.

While many of the savings will be achieved in the first three years, the real property initiatives will be introduced over the next seven years as leases and occupancy agreements expire. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through increased efficiency and effectiveness.

The savings initiatives are in three key areas:

1. Contributing to a more affordable public service by reducing office accommodation costs. This will be achieved by working with departments to **recapture real property office space** in response to reduced accommodations needs. PWGSC has developed **new real property space standards** consistent with leading practices, resulting in a reduction in the total amount of space for government office facilities by approximately 10%.
2. Phasing out cheques in favour of **mandatory direct deposit payments**. Receiver General payments made on behalf of the Government of Canada (e.g. employment insurance payments, income tax refunds, Government of Canada pay and pension cheques) which are currently issued as cheques will be transitioned to mandatory direct deposit by April 1, 2016. This is a more reliable, efficient, secure and greener payment method.
3. Achieving savings by **concentrating on core functions, streamlining processes and eliminating redundancies and overlap**, thereby ensuring value for taxpayer money. This will be achieved by:
 - **modernizing information technology (IT) infrastructure to reduce costs**. For example, a single integrated database will be created to amalgamate two of PWGSC's major IT systems for finance and real property using industry-standard software.
 - **transitioning to electronic publications**.
 - **winding down of the Canadian Language Sector Enhancement Program**, scheduled to end in March 2013.
 - **Expanding online service delivery to Canadians and businesses**.

As detailed under Risks and Uncertainties (Section 3), in order to ensure that the implementation of Budget 2012 and previous federal budget savings measures do not affect the quality of PWGSC's services, the Department is executing a

risk-based implementation plan. As a common service provider, PWGSC must also manage the uncertainty of its dependency on revenue provided by client departments. The Department has strengthened its governance of its savings commitments and is working closely with other departments through its client service network to identify these changing requirements and the impact on PWGSC. Thus far, the impact on revenues has been manageable.

For employees affected by job reductions due to Budget 2012 and previous federal budget savings measures, PWGSC has developed sound governance and a comprehensive human resource plan to address the impacts and assist them during this period. PWGSC ensures that all methods and strategies adopted to assist affected employees are in line with government directives, collective agreements and related statutes.

Approved by:

Michelle d'Auray, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
November 27, 2012

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada
November 27, 2012

Table 1. STATEMENT OF AUTHORITIES (unaudited)

For the quarter ended September 30, 2012

	Fiscal year 2012-13			Fiscal year 2011-12		
	Total available for use for the year ending March 31, 2013 <small>1) 2) 3)</small>	Used during the quarter ended September 30, 2012	Year to date used at quarter end	Total available for use for the year ending March 31, 2012 <small>1) 2)</small>	Used during the quarter ended September 30, 2011	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Vote 1						
Gross Operating Expenditures	3,252,548	857,476	1,570,066	3,470,859	965,629	1,683,329
Vote-Netted Revenues	(1,216,499)	(310,570)	(588,362)	(1,290,529)	(368,557)	(642,351)
Net Operating Expenditures	2,036,049	546,906	981,704	2,180,330	597,072	1,040,978
Vote 5 - Capital Expenditures	518,185	120,389	181,796	412,788	89,268	123,278
Vote 10 - Contribution Expenditures	5,497	859	2,295	5,210	702	1,392
Statutory Authorities						
Revolving Fund Gross Expenditures	2,100,482	340,840	617,680	2,296,281	460,614	776,820
Revolving Fund Revenues	(2,083,029)	(395,081)	(597,239)	(2,282,052)	(466,509)	(682,275)
Revolving Fund Net Expenditures	17,453	(54,241)	20,441	14,229	(5,895)	94,545
Other Budgetary Statutory Expenditures ³⁾	93,164	(152,520)	99,053	102,442	(107,626)	103,737
Total Budgetary Statutory Authorities	110,617	(206,761)	119,494	116,671	(113,521)	198,282
Total Budgetary Authorities	2,670,348	461,393	1,285,289	2,714,999	573,521	1,363,930
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(424)	(557)	-	(3,746)	(7,643)
TOTAL AUTHORITIES	2,670,348	460,969	1,284,732	2,714,999	569,775	1,356,287

1) Includes only Authorities available for use and granted by Parliament at quarter-end

2) Total available for use does not reflect measures announced in Budget 2012

Net decrease of \$44.7 million

3) Consistent with presentation in the Main Estimates, Total available for use for the year for both 2012 and 2013, under Other Budgetary Statutory Expenditures, is presented net of planned PILT payments made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Table 2. DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)
For the quarter ended September 30, 2012

	Fiscal year 2012-13			Fiscal year 2011-12		
	Planned expenditures for the year ending March 31, 2013 <small>1) 2) 3)</small>	Expended during the quarter ended September 30, 2012	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2012 <small>1) 2)</small>	Expended during the quarter ended September 30, 2011	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Expenditures						
Personnel	1,042,153	276,452	544,382	1,164,504	362,063	665,030
Transportation and Communications	91,421	19,322	37,063	230,960	51,764	95,743
Information	12,957	2,435	3,846	15,948	2,572	4,092
Professional and Special Services	1,465,451	306,130	465,158	1,570,201	364,667	529,628
Rentals	977,667	239,629	550,453	976,550	264,091	544,764
Repairs and Maintenance	1,251,344	208,169	350,143	1,194,339	234,949	391,474
Utilities, Materials and Supplies	214,970	44,835	73,300	199,908	47,922	72,329
Acquisition of Land, Buildings and Works	235,500	85,216	132,687	225,717	63,269	94,043
Acquisition of Machinery and Equipment	81,775	7,279	10,237	109,589	8,649	12,634
Transfer Payments ³⁾	5,497	(174,886)	54,898	5,210	(132,185)	52,888
Public Debt Charges	-	-	-	87	-	-
Other Subsidies and Payments	591,141	152,463	248,723	594,567	140,826	225,931
Total Gross Budgetary Expenditures	5,969,876	1,167,044	2,470,890	6,287,580	1,408,587	2,688,556
Less Revenues Netted Against Expenditures						
Revolving Fund Revenues	(2,083,029)	(395,081)	(597,239)	(2,282,052)	(466,509)	(682,275)
Vote-Netted Revenues	(1,216,499)	(310,570)	(588,362)	(1,290,529)	(368,557)	(642,351)
Total Revenues Netted Against Expenditures	(3,299,528)	(705,651)	(1,185,601)	(3,572,581)	(835,066)	(1,324,626)
TOTAL NET BUDGETARY EXPENDITURES	2,670,348	461,393	1,285,289	2,714,999	573,521	1,363,930

1) Includes only Authorities available for use and granted by Parliament at quarter-end

2) Planned expenditures do not reflect measures announced in Budget 2012

3) Consistent with presentation in the Main Estimates, Planned expenditures for the year for both 2012 and 2013, under Transfer Payments, are presented net of PILT planned payments made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Net decrease of \$78.6 million